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U.S. National War Labor
Board

Application of the
“Little steel” formula

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NATIONAL WAR LABOR BOARD

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APPLICATION OF THE "LITTLE STEEL" FORMULA



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APPLICATION OF THE "LITTLE STEEL" FORMULA

This pamphlet contains technical information on the "Little Steel" formula (sometimes known as the maladjustment formula). It is for the use of employers and unions to aid them in collective bargaining and in preparing applications for Board approval of a wage adjustment based on the "Little Steel" formula.

The "Little Steel" formula is only one point in the Board's wage policy. A brief general statement of that policy, which includes correction of inter-plant and intra-plant inequities, correction of substandards of living, and adjustments in rare cases where critical war production cannot otherwise be obtained, will be found in press release B-800.

Technical information on how the Board processes cases involving inequities and substandards was explained under the press release B-705 of June 8, 1943, with amendments under press release B-787, entitled "Instructions to Regional War Labor Boards for Operations Under Executive Order 9323 and Under the Supplementary Directive of May 12."

APPLICATION OF THE "LITTLE STEEL" FORMULA

A. What is the "Little Steel" formula?

If a group of employees has received increases amounting to 15 percent in their average straight-time rates over the level prevailing on January 1, 1941, the Board will not approve further cost-of-living adjustments.

Beginning about January 1, 1941, a race between wages and prices began. Between that date and May 1942, shortly after the President's seven point program to stabilize the cost of living was announced, the cost of living rose 15 percent as measured by the index of the Bureau of Labor Statistics.

In the same period, very considerable but varying increases in wage rates were made. The irregularity of wage increases caused many maladjustments in the wage relationships between different plants and industries. A substantial majority of industrial workers had received more than 15 percent increase; some had received less.

To correct these maladjustments, the Board will consider requests for general increases in straight-time average hourly earnings up to 15 percent above the level prevailing on January 1, 1941. This policy sets a terminal point for general wage increases. It is usually not applicable to individual workers or to employees in particular job classifications. It will normally be applied only to groups composed of all employees in a bargaining unit, in a plant, a company, or an industry, depending upon the circumstances of each case.

The formula was first applied in July, 1942, in a case involving the four "Little Steel" companies.

B. Applicability of the "Little Steel" formula to certain types of cases.

1. In cases where an employer has given no general increases since January 1941, but has granted numerous individual adjustments (merit increases, promotions, etc.) resulting in substantially higher straight-time average hourly earnings, such individual increases should not be offset against the 15 per cent allowance provided that the applicant can establish that such increases were bona fide merit increases, promotions,

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etc. The fact that such individual adjustments were given simultaneously to substantial proportions of the employees in the unit at given times need not lead to the conclusion that such increases were general increases.

- ✓ 2. a. Where an applicant's establishment began operations after January 1941 and before May 1942, the 15 per cent formula may be applied on a pro-rated basis from the first month of stability of operations. For example, if the first month of stable operations of such establishment happened to be July 1941, the percentage cost-of-living increase from July 1941 to May 1942 should be considered as the total Percentage allowable for such period under the "Little Steel" formula. General increases during the period should be deducted from the total allowable increase thus computed.
- b. Where an establishment has been converted to war products and where its operations have changed substantially between January 1941 and May 1942 (so that the nature of the job classification is now substantially different) the allowance under the "Little Steel" formula may be pro-rated in the same fashion as that described above.
3. Where an establishment has experienced a large expansion in employment or a substantial decrease in employment since January 1941, but where the type of product and of operations are still substantially the same on the date of application as they were in January 1941 (so that, even though the proportions of employees in the respective job classifications may have changed, the nature of the job classifications themselves have undergone no essential modification as to content), the 15 per cent formula may be applied to the average straight-time hourly earnings of January 1941, provided that such average hourly earnings figure is obtained by the following method: take the average straight-time hourly earnings for each job classification as of January 1941 and weight such occupational average hourly earnings figures by the employment in each job classification as of the date of application. The resulting weighted straight-time

average hourly earnings figure for January 1941 will thus, it is believed, furnish a realistic basis for application of the "Little Steel" formula to such an establishment.

- ✓ 4. Where, because of seasonal operations, an establishment had few or no employees in January 1941, the 15 per cent formula should be applied to the straight-time average hourly earnings of a normal payroll period in 1941, except that, if the peak of employment of such establishment came after July 31, 1941, the average straight-time hourly earnings of the peak payroll period in 1940 should be used.
5. Where an establishment has experienced a heavy turnover of workers since January 1941, the 15 per cent formula should nevertheless be applied to the January 1941 earnings and the usual methods of making deductions from the total maladjustment allowance should be followed. In other words, the "Little Steel" formula should be applied in full even though only a very minor fraction of the January 1941 work force has remained with the establishment.
- C. The base to be used in computing allowances due under the "Little Steel" formula.

Straight time average hourly earnings as of the payroll period ending nearest January 15, 1941, will originally be the base for calculation. It may, however, be necessary to make certain exceptions and modifications from time to time. (See 3 and 4 below).

1. Where the workers of an establishment are paid on a piece work rather than on an hourly basis, the average straight-time hourly earnings of January 1941 should be used as the base for computation of the maladjustment, even though there may have been an upward trend in productivity resulting in higher straight-time earnings after January 1941. It is not permissible to use as a base the average straight-time hourly earnings for a payroll period immediately preceding a general increase instead of the hourly earnings for January 1941 payroll period. Neither is it permissible, in cases where there has been no general increase, to use present

straight-time hourly earnings. An exception to the use of the January 1941 base in such cases may be made where, because of the nature of the industry (e.g., certain clothing and food processing industries), the earnings of January 1941 are not appropriate or typical; here the earnings of the normal payroll period nearest to January 1941 should be used.

2. If an applicant has no record of wage payments for January 1941, so that average straight-time hourly earnings for that month cannot be computed, it is desirable that some estimate for January 1941 be made if possible. The reasonableness of such estimate should be checked if possible with rates paid by similar employers in the area who have wage records for January 1941. If such estimate and check cannot be made, a later payroll period may be used if such payroll period comes before May 1942 and if the allowance under the "Little Steel" formula is appropriately pro-rated.
3. Wage rate increases made in January 1941 or in immediately following months as a result of previous protracted negotiations should be considered as part of the base (i.e., should be reflected in the average straight-time hourly earnings base) to which the 15 percent formula is applied. In carrying out this suggestion, however, care must be taken to make a decision consistent with the decision made under D-2-c following. In other words, if such a January or post-January 1941 increase is counted as part of the base for the calculation of a maladjustment allowance, such increase should not be offset against the maladjustment allowance.
4. Wage rate increases made in November or December 1940 which were clearly intended to compensate employees for anticipated cost-of-living increases should not be included in the base to which the 15 percent formula is applied. In carrying out this suggestion, however, care must be taken to make a decision consistent with the decision made under D-1-b following. In other words, if such a November or December 1940 increase is not counted as part of the base for the calculation of a maladjustment allowance, such increase should be offset against the maladjustment allowance.

✓ D. The increases to be offset against total allowance due under the "Little Steel" formula.

Note that it is not correct to find out whether there has been a 15 percent adjustment merely by comparing average straight-time hourly earnings in January 1941 with those now paid. Many of the excluded changes, promotions, re-classifications, upgrading, increases in hourly productivity, etc.--are reflected in average hourly straight-time earnings after the changes are made. Consequently, a mere comparison of January 1941 earnings and present earnings would entirely defeat the purpose of the exclusions.

Another objection to a simple comparison of January 1941 earnings with present earnings is the fact that changes in earnings may reflect changes in the composition of the labor force rather than changes in rates paid. Average earnings may rise greatly if the proportion of the higher-paid skilled men increases; changes in average earnings may show a lesser increase than the total of the "general increases" if the proportion of lower-paid persons increases.

1. These should be offset:

- a. Against the full 15 percent cost-of-living increase there must be offset all general increases which have been given in the plant since the base date. "General increases" are those increases in rates given to ten percent or more of the employees in the unit, which have been made without respect to increases in productivity and which are expected to result in increased labor costs per unit of product manufactured or service rendered. This concept excludes all increases, promotions, and up-gradings, and all the other increases which are specified in General Order Nos. 5, 9 and 31, unless such increases to individual workers appear to have been given in "clusters," over relatively very short periods of time, to 10 percent or more of the employees in the unit. Likewise, increases in weekly earnings are excluded from consideration since they reflect increases in working hours and the consequent production of additional goods or

services. The purpose of these exclusions is to enable the cost-of-living calculation to be based on changes in rates paid for the same job content.

In order to prorate "general" increases which were granted to only part of the employees in the unit of calculation the following procedure should be followed:

- (1) It should be determined that the adjustment is a deductible one (e. g., not true merit increases) from the total increase allowable under the "Little Steel" formula.
- (2) The number of employees directly affected by the adjustment at the time of the adjustment should be taken as a percentage of the of the total number of employees on the payroll of the entire unit at the time of the adjustment.
- (3) The amount of the previously given wage-rate increase in cents per hour should be multiplied by the percent computed in step (2) above. (If the amount of adjustment is not presented in percentage terms, the cents per hour increase should be determined by multiplying the average straight-time hourly earnings by the percent increase given by the applicant.)

An example would be a case where a 10 cent increase was given to 500 workers at a time when there were 1000 workers in the plant. The effect of the increase upon the plant as a whole would be only a 5 cent increase in a straight-time hourly earnings (50 percent of 10 cents). The specific effect of each increase on earnings in the entire plant or unit must be calculated separately in this manner.

- b. Wage rate increases made in November or December 1940 which were clearly intended to compensate employees for anticipated cost-of-living increases

should be offset against the maladjustment allowance. But it is important to scrutinize carefully the facts of each individual case. (See C-4 above)

- c. A wage rate increase granted to compensate for the elimination of a non-production bonus, a vacation with pay, paid holidays, or a shift bonus previously applicable to only part of the work force should be offset against the maladjustment allowance.
- d. General wage rate increases given to the workers themselves in various job classifications without changing learner rates, starting rates, minimum or maximum rates of rate ranges, or progression schedules should be offset against a maladjustment allowance, even though because of great labor turnover little or no change has resulted in average straight-time hourly earnings; provided that the same general wage rate increase as previously given to the workers may now be applied to the job rates, entirely apart from any net increase presently allowable under the "Little Steel" formula.
- e. Wage increases resulting from an acceleration of a progression schedule should be offset against a maladjustment allowance provided that the nature of the work has not changed substantially.
- f. (1) Wage rate increases up to the minimum rates established under the Fair Labor Standards Act or under State minimum wage laws or under the Walsh-Healey Act or under the Davis-Bacon Act should be offset against maladjustment allowances.

However, the fact that a low paid group of workers may, under the above rule, have entirely exhausted its maladjustment allowance does not necessarily mean that such a group is prevented from receiving a wage rate increase. On the contrary, it is entirely possible that such a group can be handled under the wage bracket system or under the minimum rate used in each region to define substandards of living.

(2) Wage rate increases up to forty cents an hour made without Board approval under General Order 30 should be offset against maladjustment allowances.

(3) Wage rate increases up to the minimum rates recommended by Regional Boards and approved by the National Board for the correction of substandards of living should be offset against maladjustment allowances.

(4) Wage rate increases made, in order to maintain intra-plant rate relationships, to any workers who had already been receiving higher rates than those required by any State or Federal minimum wage rates should also be offset against maladjustment allowances.

2. These should not or need not be offset:

a. Wage payments involved in the establishment or liberalization of vacation-with-pay plans or holiday-pay plans between January 1941 and the date of application should not be offset against the maladjustment allowance.

b. Wage payments involved in the establishment of liberalization of night shift bonus wages between January 1941 and the date of application should not be offset against the maladjustment allowance.

c. Wage rate increases made in January 1941 or in immediately following months as a result of previous protracted negotiations should not be offset against the maladjustment allowance. But it is important to scrutinize carefully the facts of each such individual case in order that full equity be done. (See C-3 above)

d. Wholesale adjustments made in piece rates as a result of job re-evaluation need not be offset against a maladjustment allowance if such piece rate adjustments are the result of a bona fide job re-evaluation.

e. The payment of overtime wages where not previously paid need not be offset against a maladjustment allowance.

f. A wage rate increase given by an applicant in order to restore a previous wage cut should not be offset against a maladjustment allowance unless the wage cut was made before January 1941.

g. Wage rate increases given to experienced workers under a group bonus system to compensate such workers for loss of earnings resulting from the dilution of the average level of skill by the addition of new inexperienced workers should not be offset against a total maladjustment allowance.

h. A wage rate increase granted to compensate for the elimination of a production bonus or a night shift bonus previously applicable to every worker in the maladjustment unit should not be offset against a maladjustment allowance.

i. Christmas and similar bonuses should not be considered under the "Little Steel" formula. This is because such bonuses are lump-sum payments, usually based on company earnings during the preceding year, and they are not a regular and fixed part of an employee's earnings. Under General Order No. 10 bonus payments are permitted when they do not exceed the amounts or percentages paid to employees for like work during the preceding bonus year. Other proposed lump-sum bonus payments must be presented to the Board for approval case-by-case.

3. Average straight-time hourly earnings in existence during a payroll period soon after wage rate adjustments were made in compliance with Federal or State minimum wage laws may not be used instead of January 1941 earnings for calculation of the 15 percent allowance.

4. When all the general increases since January 1941 (including the prorated ones) have been ascertained, they should be totaled. This total should be subtracted from the total cents-per-hour amount of the

15 percent increase over January 1941 straight-time average hourly earnings. The remaining figure, if any, is the maximum increase which is appropriate under the "Little Steel" formula.

E. The unit to which the "Little Steel" formula should be applied.

Ordinarily the unit to which the 15 per cent formula is to be applied will be a single establishment or place of business. It will not normally be limited to a particular job classification or a single employee. Under certain circumstances it will be a bargaining unit smaller than an establishment, a group of plants owned by one company, or an employers' association. Usually the easiest unit to handle, both from the applicant's and from the administrative point of view, would be the entire plant, establishment, or place of business, or the production employees thereof. The Board has no desire to disturb existing contractual relations between employers and employees, nor does it wish to disturb rate-fixing relationships which may be traditional in certain industries in a community or area. For these reasons, therefore, wide discretion and latitude is permitted in determining what is the unit to which the 15 per cent formula may be applied.

1. The "Little Steel" formula may be applied separately within an establishment to a non-union group of workers employed in an occupation commonly organized as a separate bargaining unit, e.g., truck drivers, only if the employer has always dealt with such employees separately on wage matters. Similarly with non-union production workers or office workers: the method of dealing with such cases depends on the facts of the individual situation and on the past history of granting wage adjustments.
2. Assume the following facts: A wage rate increase is requested on a plant-wide basis. Some bargaining units which have already received general wage rate increases would receive an additional amount, thus bringing the total increases for such groups well above 15 per cent (example: maintenance workers have received increases amounting to 10 per cent; plant-wide calculation of remaining allowance gives equivalent of 9 per cent.) Query: should such bargaining units share fully in the plant-wide distribution? Answer: 1. If the

requested adjustment is based on an agreement whereby the separate bargaining unit or union has actually given up separate bargaining, the plant-wide increase may be distributed across the board; 2. If the separate bargaining unit or union remains separate in its wage dealings with the employer, the plant-wide net maladjustment allowance should be distributed so as to avoid the creation of inequities and so as to eliminate previously created inequities. To use the example given above, if the maintenance workers who have already received a 10 per cent increase retain their identity as a separate bargaining unit, the plant-wide 9 per cent increase should be distributed so as to provide a total increase since January 1941 but approximately the same for both maintenance and production workers.

3. If application of the "Little Steel" formula is to be on a company-wide basis as distinguished from a plant basis it should usually be made for plants under one ownership in the same community or area. This should be permitted if there is such a close-knit wage relationship among the plants that for the sake of stable labor relations the adjustment should be based upon the averaging of data for several plants and would yield a uniform cents per hour adjustment for all the plants.

Where wage rate increases are requested on a company-wide basis for companies having plants in a number of different labor market areas or for companies (e.g., telephone companies) having well defined departments, the unit to be chosen for the application of the "Little Steel" formula should depend on the careful weighing of such factors as (1) the company's previous wage policy; (2) the extent and nature of geographic wage rate differences involved; (3) the structure of the industry as a whole; and (4) the general equities involved, such as the amounts of increase available for different plants or departments of workers.

4. The 15 percent formula may be calculated for an entire association of employers rather than separately for each of the member establishments if (1) all the member employers of the association (and the union, if one

is involved) desire the maladjustment to be calculated association-wide and are willing to file one Form 10 for the entire association; (2) the association covers only one labor market locality; (3) there is substantial uniformity of wage rates and of past wage rate changes among the members of the association; and (4) all the employers in the industry-area belong to the association, provided however that if the facts of a particular case so indicate the association may include "practically all" rather than all the employers in the industry-area.

5. Except as the facts of particular cases may indicate otherwise, the following groups of employees should be included rather than excluded for the purpose of calculating allowances under the "Little Steel" formula:
 - a. Apprentices and learners
 - b. New employees not yet fully qualified for their jobs
 - c. Employees earning less or more than a certain amount
 - d. Employees engaged in a department whose volume or importance of output has declined
 - e. Employees approaching retirement status
 - f. Employees recently ill for protracted periods
 - g. Employees about to leave for other employment or for service in the armed forces
 - h. Part-time employees.
6. If an entire industry is to be handled on a nation-wide basis, it will be handled by the National Board in Washington rather than by any one Regional Board.
7. Permission may frequently be granted to apply the formula to the production employees of an establishment, where such employees constitute all but a small percentage of the total number of employees. In such cases, if application is later made for salaried workers, the application for the latter group will be handled on the basis of intra-plant inequalities.
8. Adjustment may be made on the basis of a collective bargaining unit smaller than an entire establishment, provided that the bargaining unit has an established collective bargaining relationship with the employer.

9. Where adjustments are being sought for only single individuals or for relatively few persons, the "Little Steel" formula may be applied to them, where such application would afford an equitable and expeditious method of disposing of the case.

F. Distribution of approved allowances under the "Little Steel" formula.

1. Approved maladjustment allowances should be distributed among individual employees in such manner as to eliminate rather than create intra-plant or inter-plant inequities. (This does not mean that across-the-board increases may not be made where no inequities are thereby created.) If an applicant who has already received and distributed a maladjustment allowance later asks for a further wage rate increase on the grounds of intra-establishment inequities, a presumption exists against granting such request.
2. It is not proper to compensate for varying amounts of weekly take-home by uneven distribution of a maladjustment allowance.
3. Maladjustment allowances may not be distributed in accordance with varying lengths of service.
4. Piece rates may be so increased as to yield the approved maladjustment allowance.
5. With respect to time rates of pay an approved maladjustment allowance may be applied not only to the rates of pay which the workers themselves have been receiving but also to the rates for the various job classifications as such. Such application may be made not only with respect to single-rate jobs but also with respect to rate-range jobs. With respect to rate-range jobs, a maladjustment allowance (in cents per hour) should be applied to the starting rates, to the minimum rates, to the maximum rates, and (if there are any such) to the automatic-length-of-service progression rates. If the applicant or applicants agree, an approved maladjustment allowance may be applied to the various job classification rates without giving corresponding immediate increases in the wage rates paid to the actual job incumbents.

6. Employees in the unit may not as a whole receive more than the net allowable amount.

G. Instances in which an allowable increase should not be approved.

1. A cost-of-living adjustment may not, in the discretion of the Board, be approved in full if it would bring the wage rates or average straight-time hourly earnings for any job classification above the maximum of the bracket of sound and tested going rates for that classification in the labor market area.
2. If it appears that the applicant intends to use the increase for manpower purposes, the applicant should be told that the proposed plan is improper.

Addendum:

On page 4 insert a sixth point under B. Applicability of the "Little Steel" formula to certain types of cases:

6. In the case of workers paid wholly or partly on a commission basis, data on hours worked frequently are not available. In such cases, the earnings base to which the "Little Steel" formula should be applied cannot be determined. As a general rule, therefore, the "Little Steel" formula is not applied to cases involving the commission method of wage payment. Each case of this type is decided upon its own merits in the light of the detailed facts of each case.

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